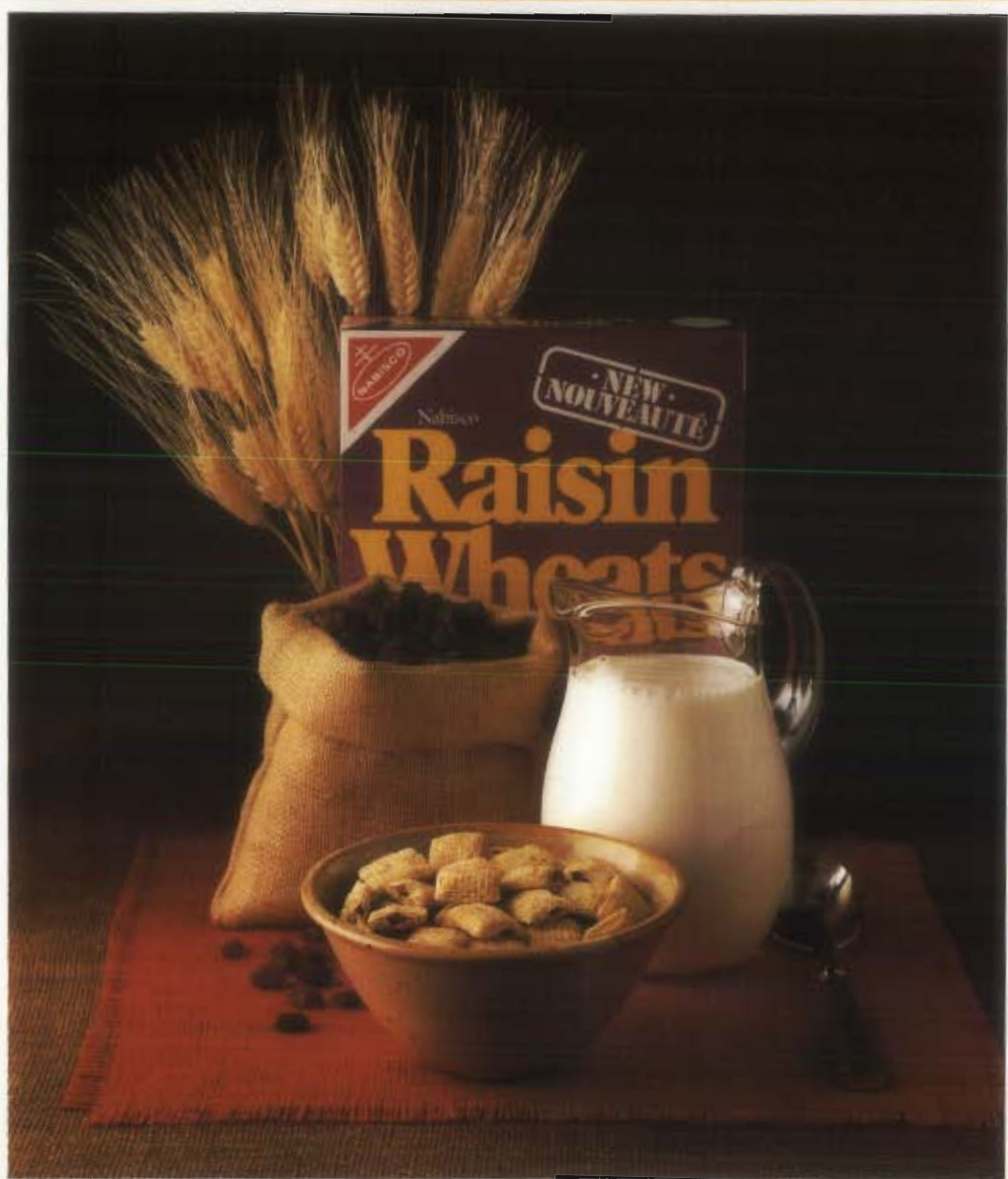




NABISCO  
BRANDS

ANNUAL REPORT 1986





A Fourth Dimension:  
*Raisin Wheats* joins the Nabisco  
family of cereals.



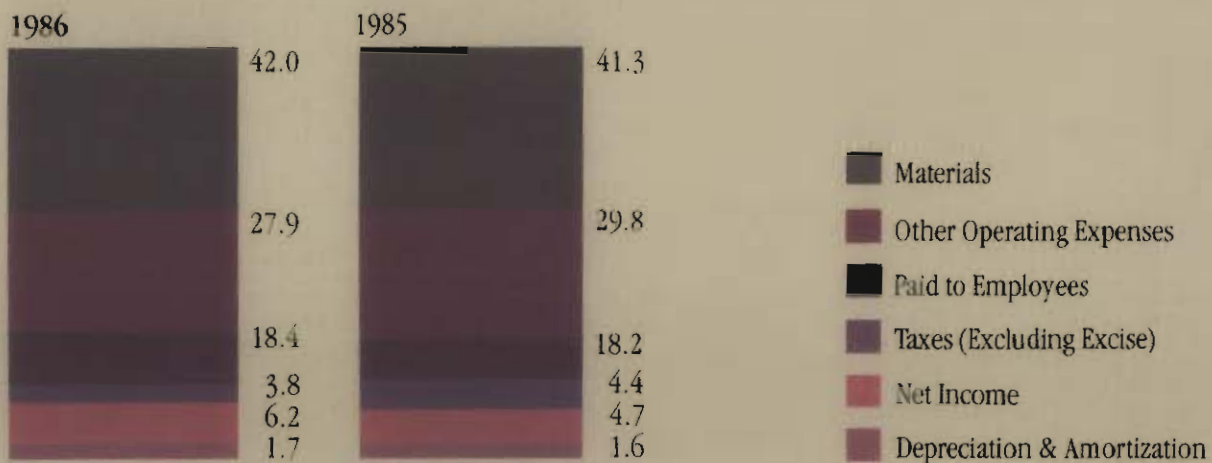
*Oreo Double Stuf: more inside  
for the people who've made Oreo  
Canada's favourite cookie.*



## Financial Highlights

|                             | <u>1986</u>   | <u>1985</u>   | <u>1984</u>   | <u>1983</u>   | <u>1982</u>   |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>FINANCIAL HIGHLIGHTS</b> |               |               |               |               |               |
| (in thousands of dollars)   |               |               |               |               |               |
| Net Sales                   | \$941 655     | \$961 332     | \$938 487     | \$907 213     | \$786 043     |
| Net Income                  | 58 510        | 45 585        | 44 560        | 42 800        | 37 950        |
| Working Capital             | 247 311       | 194 413       | 169 929       | 176 623       | 200 183       |
| Capital Investment          | 19 548        | 21 894        | 21 146        | 24 823        | 20 606        |
| Shareholders' Equity        | 350 136       | 307 626       | 278 041       | 279 481       | 276 744       |
| <br>Total Assets            | <br>\$658 802 | <br>\$513 290 | <br>\$483 059 | <br>\$481 326 | <br>\$442 429 |
| Total Debt                  | \$ 48 419     | \$ 52 622     | \$ 56 092     | \$ 59 469     | \$ 60 051     |
| <br>PER CAPITA SALES        | <br>\$ 37.63  | <br>\$ 38.28  | <br>\$ 37.38  | <br>\$ 36.33  | <br>\$ 32.35  |

### ANALYSIS OF REVENUE DOLLAR



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COMPANY PROFILE: Nabisco Brands Ltd is one of Canada's foremost food and beverage manufacturers. The Company's origins date back to 1853 with the founding of Christie, Brown and Company, a maker of baked goods. Today, many of the Company's products are market leaders and its brands have been household words for generations, based on a tradition of quality that began in Canada more than 133 years ago.

The shares of Nabisco Brands Ltd are listed on the Toronto and Montreal Stock Exchanges.

ANNUAL MEETING: The Annual Meeting of Shareholders will be held at the Metro Toronto Convention Centre, Room 201, 255 Front Street West, Toronto, Ontario, at 11:00 A.M. on Friday, May 8, 1987.

Throughout this Report, trade names, trade marks, or brand names owned by or associated with Nabisco Brands Ltd and its subsidiaries are shown in *italics*.

For additional copies of this Report, write to:

Corporate Affairs  
Nabisco Brands Ltd  
1 Dundas Street West  
Toronto, Ontario  
Canada M5G 2A9

On peut se procurer l'édition française de ce rapport en écrivant au:

Affaires générales  
Nabisco Brands Ltée  
1 Dundas Street West  
Toronto, Ontario  
Canada M5G 2A9



The *Del Monte* brand now is an  
integral part of Nabisco's reorganized  
Grocery Division



## Executive Report



J.R. MacDonald  
Vice Chairman &  
Chief Executive Officer

R.E. Glover  
President &  
Chief Operating Officer

M.F.C. Emmett  
Chairman of the Board



In 1986, the net income of Nabisco Brands Ltd rose to \$58.5 million from \$45.6 million the previous year. Excluding extraordinary gains, net income declined to \$32.5 million in 1986 from \$46.5 million in 1985. Net sales in 1986 were \$941.7 million compared with \$961.3 million the previous year.

The Food and Beverage Industry did not experience growth during 1986 and competition was vigorous. The imposition of the 5 per cent surtax on federal income tax and the elimination of the 3 per cent inventory tax allowance made the situation worse.

During 1986 the decision was made to reinvest heavily in those areas where Nabisco Brands Ltd has a strong position. The objective is to capitalize on your Company's primary strengths by marketing the highest quality products, produced in the most efficient plants in Canada.

Advertising, consumer promotion and merchandising are essential ingredients for such a strategy to be effective. Expenditures increased to \$53 million in 1986 from \$46 million during the prior year. More importantly, the increase in the last half of the year was 44 per cent. This strategy will ensure healthy market shares in all areas of primary emphasis and it also provides a basis for long term profitability even though there are some negative effects on short term earnings.

Already the strategy of increased marketing support is paying dividends. *Oreo* cookies increased volume in the same comparative period by 43 per cent. The new cereal product, *Raisin Wheats*, was successfully introduced throughout English speaking Canada and, more recently, has been expanded into Quebec. This strategy is working and will continue during 1987.

Your Company also initiated a restructuring program, involving one major acquisition and several divestitures, to ensure that Nabisco Brands Ltd is positioned to capitalize on primary strengths as the future unfolds.

During 1986 the following transactions took place:

On July 2, 1986, Nabisco Brands Ltd sold the fixed assets, inventories and trademarks of the Canadian yeast operations of the Fleischmann Division to Burns Philp & Company Ltd. of Australia.

On December 31, 1986, your Company completed the sale of McGuinness Distillers Limited and Calona Wines Limited to Heublein, Inc. of Farmington, Connecticut.

In the latter part of 1986, the Company entered into an agreement to sell The Hervin Company, its U.S. based pet food operation in Tualatin, Oregon, to Alpo Petfoods of Allentown, Pennsylvania. To simplify tax

planning, your Company sold the Hervin trade marks to Nabisco Brands Inc. prior to this agreement. Subsequent to the fiscal year-end, Nabisco Brands Ltd completed the sale of its canned pet food operations, including the *Dr. Ballard's* and *Miss Mew* brands, to Nestlé Enterprises Limited.



In November, Nabisco Brands Ltd acquired Canadian Cannery Limited from the majority shareholder, RJR Nabisco, Inc. Canadian Cannery, with sales last year of approximately \$200,000,000, expands the portfolio of branded consumer food products and brings to your Company a century-old tradition of quality and a catalogue of more than 200 products, including the venerable *Del Monte* and *Aylmer* brands.

In summary, your management is confident that the correct measures have been implemented to restore the growth in profitability of Nabisco Brands Ltd. Resources will be concentrated on strategic business units where marketing support will be increased significantly for the second consecutive year.

The year 1986 was not typical and we are grateful to the dedicated efforts of all our employees, without whose support it would not have been possible to reposition the Company so effectively.



M.F.C. Emmett  
Chairman of the Board

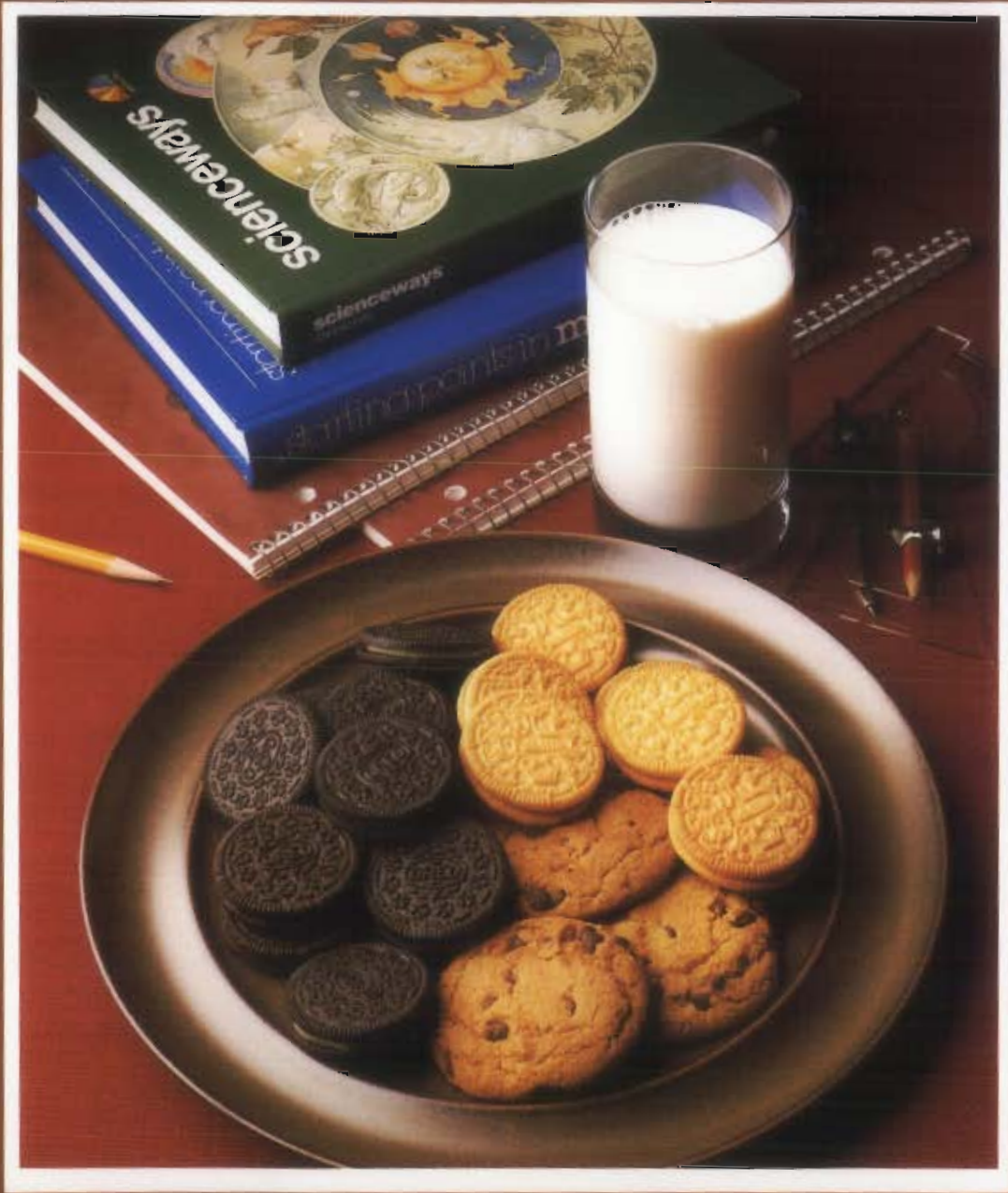


J.R. MacDonald  
Vice Chairman &  
Chief Executive Officer



R.E. Glover  
President &  
Chief Operating Officer







**T**he merger of Nabisco's two biscuit divisions in 1986 brought together the families of *Christie* Cookies, *Christie* Crackers, and *Christie* Snacks & Cones with those of the former Associated Biscuits' *Peek Freans*, *Dad's*, *David*, and *Harnois*.

The high quality of these brand families hasn't changed. Nor has their distinctiveness. What has changed is that they have a stronger representation in the marketplace because they all come under the sales, service and distribution system of Christie Brown & Co., with its unique direct-to-store delivery system.

Among the highlights:

*Oreo* cookies, already number one in Canada, attained a record high market share due in part to two successful new product launches — *Oreo Double Stuf* and *Oreo Mint Creme*. A multi-media program already has made famous the slogans "Even Moreo" and "Flavour of the Menthe".

And now there are four! A new *Newtons* variety, *Raspberry Newtons*, joined *Fig Newtons*, *Date Newtons* and *Apple Newtons* with an acclaimed summer debut. The four varieties, all made with real fruit, appeal to all family tastes.

*Peek Freans*, a top-of-the-line premium biscuit and long a special favourite with customers in the United States as well as in Canada, returned to television with a series of messages designed to encourage consumers to regard this top-of-the-line premium biscuit as a treat for more than just special occasions. The catchy, and apt, theme: "What are you saving your *Peek Freans* for?"







New from *Peek Freans*, Orange Chocolate Tea Biscuits enrobed a subtle orange flavour biscuit with pure dark chocolate and won a high degree of positive purchase interest from consumers. And for those seeking variety, *Celebration* offered a deluxe assortment of *Peek Freans* biscuits suitable for

special occasions and gift-giving, packaged in a manner which communicates the *Peek Freans* image of superior quality and sophistication.

*Dad's* maintained its position as Canada's most popular oatmeal cookie with aggressive in-store merchandising and pricing strategy.

*David* cookies, a Quebec tradition for more than 75 years with favourites such as Maple Leaf, Strawberry Tarts, Princess, and Jelly Mallows, re-introduced its Chunks o'Chocolate cookies with strong media advertising support.





In the cracker category, consumer appetite for *Ritz*, the world's favourite, was whetted by new television advertising. *Ritz* remains the standard of excellence to which all other crackers aspire.

To appeal to the growing segment of the public concerned about salt intake, new Less Salt *Ritz* was formulated to provide the same light, flaky, melt-in-your-mouth texture as regular *Ritz*, but with only half the salt.

*Premium Plus* strengthened its position as the number one brand in the soda cracker market during 1986. Marketing support programs in 1987 will ensure that *Premium Plus* continues to be significantly preferred over its competition.





With the introduction of *Pizza Thins*, Christie strengthened its leadership of the snacking cracker market and is the only brand that offers a flavour for every snacking occasion.

One of the success stories of the year has been the new Less Salt *Triscuit*, which complements *Triscuit* and which, like Less Salt *Ritz*, appeals to the sodium-sensitive consumer.

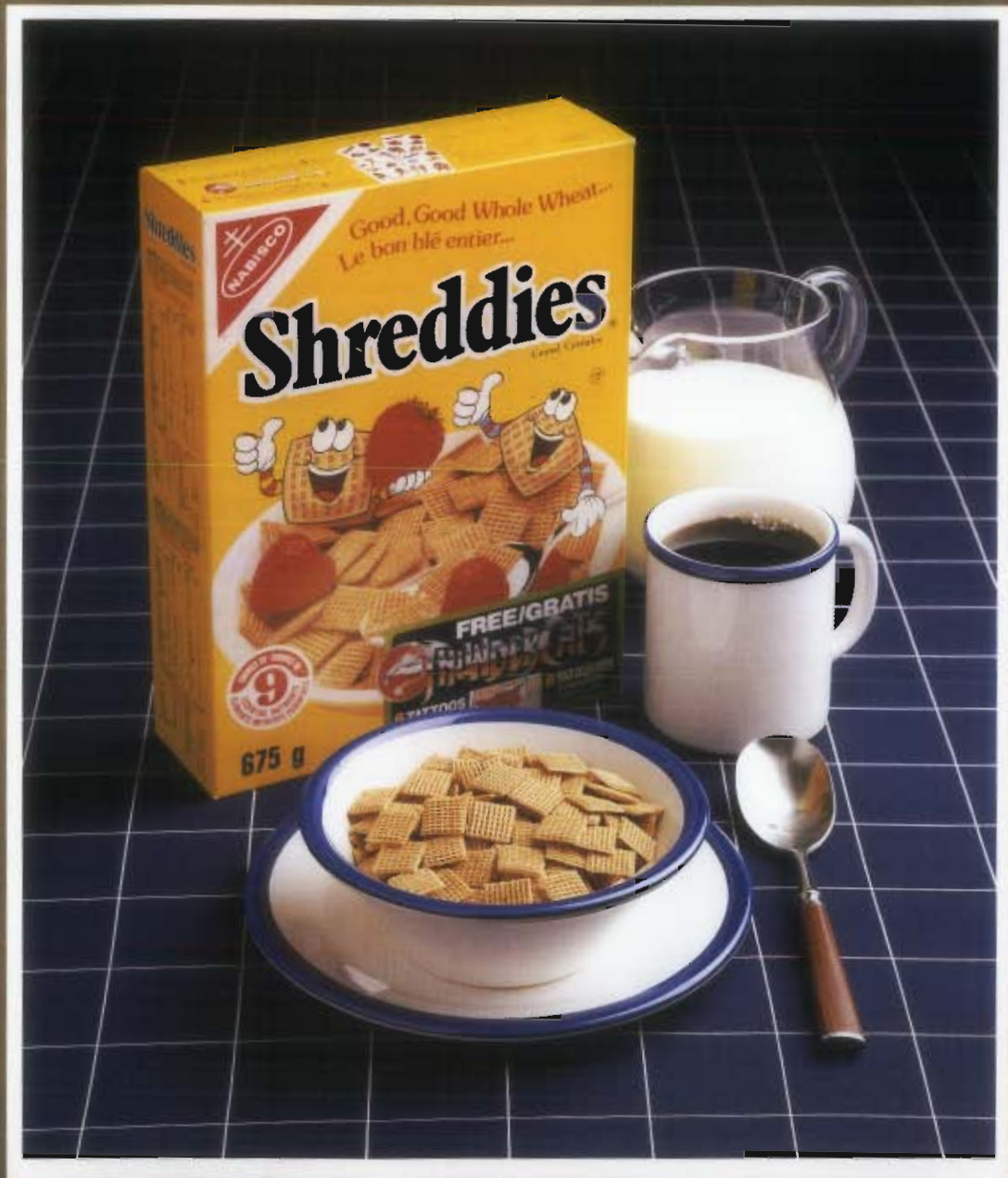
Christie's *Wheat Thins* similarly found a popular new companion in Less Salt *Wheat Thins*, becoming part of the "Fantastic Four" *Wheat Thins* favourites. The other new flavours, providing a variety of taste choice and all offering the goodness of wheat, are Honey *Wheat Thins*, with honey baked right in, and Nutty *Wheat Thins*, with ground almonds sprinkled on top.

*Better Cheddars* became a significant player in 1986 with its ultra-thin crispness made from real cheese. This success coincided with the additions last year to the *Better Snack Thins* line of *Better Swiss*, *Better Nacho* and *Better Blue*.

Last year's integration of Associated Biscuits of Canada Ltd. into Christie Brown & Co. has accomplished its objectives of improving customer service throughout Christie Brown & Co., as well as securing economies for Nabisco.







**T**hese two need no introduction! *Del Monte*, the label that gives the customer "something extra"! And *Aylmer*, the "value line"!

With the acquisition in November, 1986 of Canadian Cannery Limited, these two labels joined the Nabisco family. Along with Canadian Cannery's other quality branded products — including *Hawaiian Punch*, *Coronation*, and *Chun King* — they make a great fit with Nabisco's extensive line of grocery products.

That fit was made even more snug on January 1, 1987 with the integration of Canadian Cannery with the Nabisco Foods Division to form the new Grocery Division.

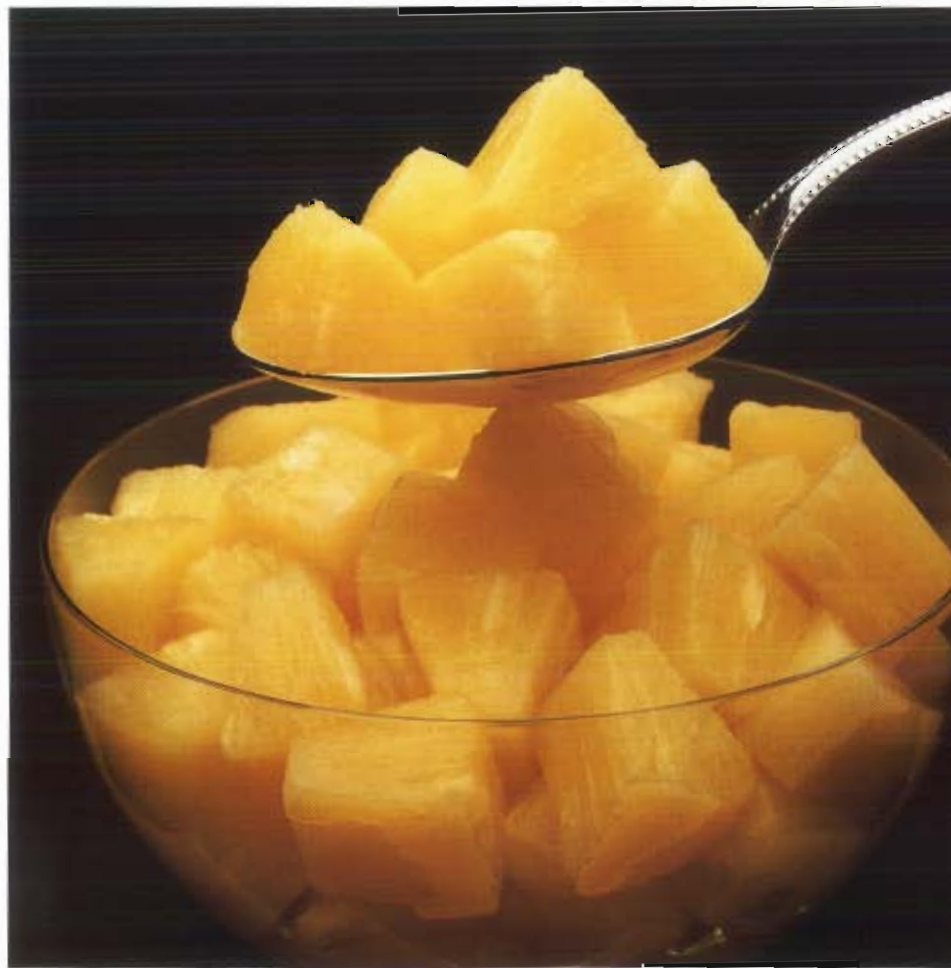
*Aylmer* and *Del Monte* products have been a familiar part of Canadian life for

more than 100 years. They include canned fruit, vegetables, ketchup, juices, soups, condiments and jams, all known for their fresh taste. Ninety per cent of the materials come from Canadian sources; the processing takes place at eight manufacturing plants located throughout Southern Ontario and Quebec.

Together with *Nabisco Shredded Wheat* and *Shreddies* Cereals, *Fleischmann's* Margarines, *Chippits* Baking Chips, and *Royal* Desserts, they add up to

a formidable array of choice, taste, quality and value.

The *Del Monte* and *Aylmer* labels account for 80 per cent of the former Canadian Cannery's business. Last year, *Del Monte* found a new way to sell vegetables. By the dozen. The *Del Monte* Dozen. The most popular varieties of *Del Monte* vegetables were made available in specially-marked cases of 12 — Whole Kernel Corn, Cream Style Corn, Green Beans and Peas.





The market share of *Del Monte* 100 % Juices reached an all-time high in 1986. Growth in sales was aided by a buoyant consumer reception for the new *Del Monte* Hawaiian Fruit Juice, an exotic blend of pineapple, tangerine, pear, apricot, lemon and apple juices which complements *Del Monte*'s two other blended fruit juices, Tropical and Caribbean. A second reason for increased market share was expanded distribution of Tropical, Caribbean and Pineapple Juice to the four western provinces, a region which now accounts for more than 20 per cent of *Del Monte*'s cartoned beverage business.

Last year also saw the growth in volume of *Del Monte* Pineapple Spears



and *Del Monte* Pineapple Chunks. These two products, which were launched nationally in 1985, were supported that year and through 1986 with television advertising which received one of the highest consumer recall scores ever recorded in Canada.

An exciting new product was added to the *Aylmer* line in October, 1986. *Aylmer* Tomatoes with Herbs and Spices, specially formulated with a unique blend of Italian herbs and spices, represents the first value-added, differentiated entry into the canned whole tomato category.



There's no debate: the most important way to start the day is with the right kind of breakfast. The Nabisco family of cereals provides a nutritious and tasty beginning for all age groups.

Nabisco is a strong number two in Canada's cereal market, and maintained that position during 1986 in an increasingly competitive market. A fourth core brand, *Raisin Wheats*, was added to *Shreddies*, *Nabisco Shredded Wheat*,





and *100 % Bran* to round out a wholesome get-out-of-bed menu.

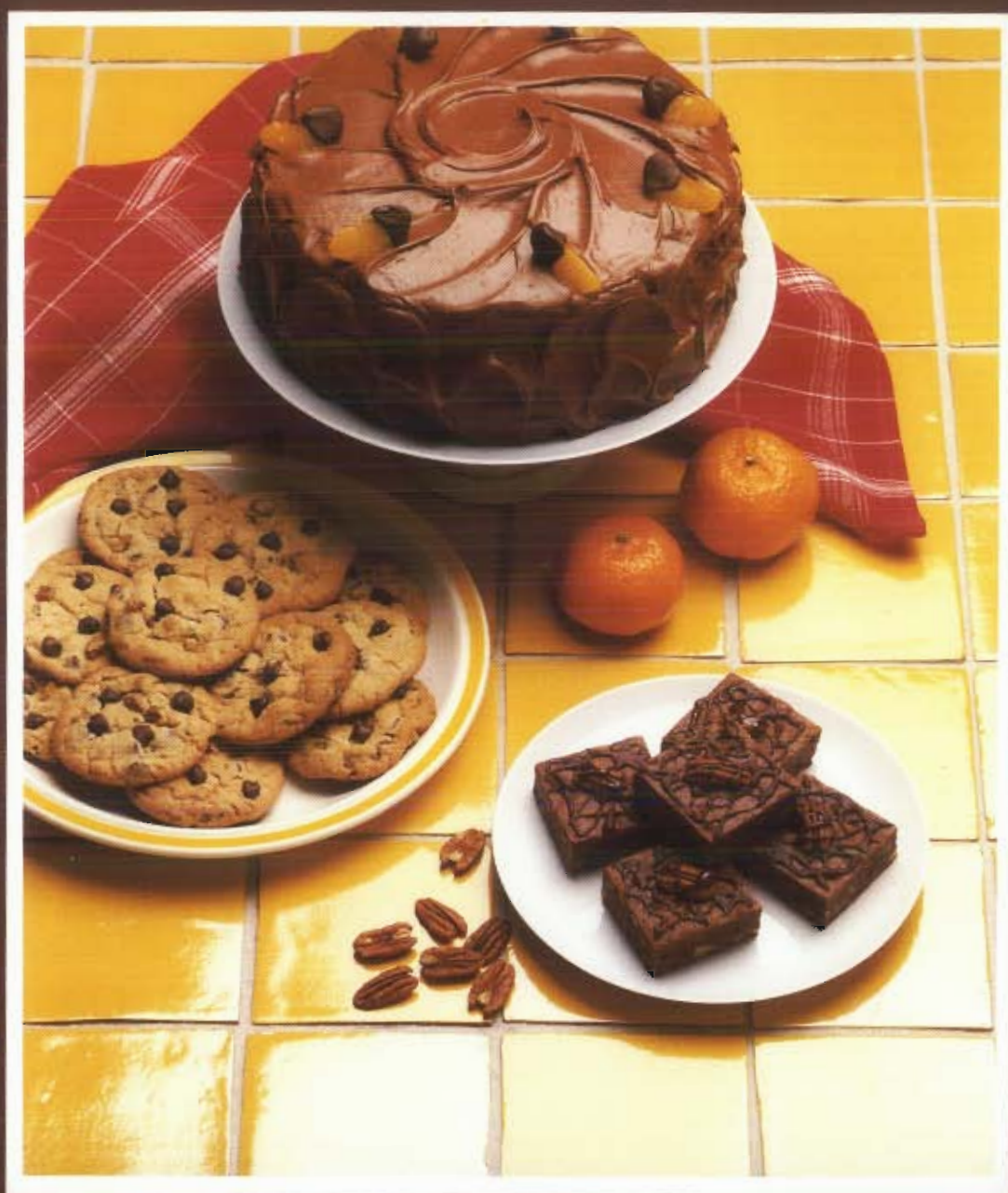
*Raisin Wheats* is the result of a technological breakthrough which combines the wholesome goodness of 100 per cent whole wheat with moist and chewy raisin in every bite-sized biscuit: consumer response to *Raisin Wheats* has been outstanding.

Today's lifestyles increasingly emphasize healthy and convenient foods and the need to save precious time. Nabisco cereals meet all three imperatives, and the Division will continue to build on the brand leadership of these products.

New packaging introduced in 1986 for *Shreddies* and *100 % Bran* added to the appeal of these brands.

This special and enduring Nabisco family of products will be front and centre in the Company's program of increased marketing-media exposure. In today's society, these good-for-you and good-tasting cereals deserve the acclaim. A deep breath of invigorating morning air, a relaxing stretch, a bowl of *Shreddies* — and the world beckons!





The *Chipits* line maintained its market share position in 1986. *Chipits* Baking Chips still leads the industry; *Chipits* Baking Squares, introduced in 1984, and *Chipits* 100 % Pure Cocoa, brought out in 1985, both increased their market shares; and new *Chipits* Jumbo Baking Chips joined the line to meet a consumer need for extra large baking chips.

There was no dislodging Nabisco margarines, both the premium *Fleischmann's* brand and the popular *Blue Bonnet* brand, from their preferred position among Canadian consumers. Increasing concern for healthful eating habits assures the future growth of *Fleischmann's*.

And two new *Royal* desserts, *Royal* Banana Cream and Chocolate Mousse No-Bake Pie Mixes were introduced to provide perfect endings to any good meal.

The Nabisco line of pet snacks, including *Milk-Bone*, *Butcher Bones*, and *Flavour Snacks*, remained number one in Canada and an important member of the Grocery Division.





**W**hat comes in the widest variety of shapes, sizes, colours, textures and tastes? The answer, of course, is Nabisco's line of confectionery products, the most delicious as well as the most comprehensive in Canada.

Last year, the Confectionery Division built on the strength of its core brands by introducing a number of line extensions which found instant favour with consumer palates.

*Planters* fortified its position as the number one snacking nut in Canada and confirmed its commitment to quality in 1986 with a "Freshness Guaranteed" flag conspicuously positioned on the brand's cellophane packaging.

Following on the success of *Ovation* Coffee Sticks, new *Ovation* Almond Sticks received good introductory





response. *Moirs* Collection added *Filbert Clusters* and *Mint Supremes*, while initial sales for the down-sized *Pot of Gold* and *Petit Petit* White and Dark reflected their appeal to price-sensitive gift-givers.

In what was a very difficult market for candy bars, *Oh Henry!* remained the number two selling bar in the country. *Bonkers!*, which added a new chocolate flavour in 1986, was still the number one choice of the public in the chewy candy category.

Consumption of *Life Savers* increased over the previous year, boosted by the

"Hole Lot of Flavour" advertising campaign and the introduction of a new Banana Split flavour. *Breath Savers* Candy Mints were reformulated with NutraSweet® and relaunched in four flavours.



In the past year, Nabisco increased its industry leading position of the away-from-home coffee and snack markets with increased sales of existing brands and the introduction of a taste-pleasing group of products.

One of the successful new foodservice lines was *Imperial Choice* coffee brought

out by Nabisco's three roasting companies — Dickson's Food Services Ltd. of Vancouver, Melrose Coffee Company of Winnipeg, and Club Coffee Companies of Toronto.

Eight new gourmet and flavoured *Imperial Choice* coffees found a comfortable niche in the upscale retail and restaurant markets. *Imperial Choice* iced teas, in tins and in single-serve packs, and *Imperial Choice* Hot Chocolate, were also given an exceptional welcome.

Nabisco Brands Food Service Company significantly increased its national sales. New branded products such as *Dad's* Chunky Chocolate Chip cookies, *David* Maple Leaf cookies, and *Oreo* bulk crumbs joined such established



brands as *Premium Plus* crackers and *Shreddies* cereal in our foodservice customers' establishments.

Reid Milling's soft wheat mill in Mississauga, the largest producer in Canada, ran at capacity through 1986, and expects to duplicate this performance in 1987. Reid produces 16 different wheat

flour blends for Nabisco, for other food processors in Ontario and Quebec, and for sale to export markets. It also produces wheat cereal bran and wheat germ for sale in Canada and the United States.





## Directors and Officers

### Board of Directors

**Paul Desmarais, Jr.**  
Montreal, Quebec  
President  
Power Financial Corporation

**Walter G. Dunnington, Jr.**  
New York, New York  
Senior Vice President &  
Deputy General Counsel  
RJR Nabisco, Inc.

**Martin F. C. Emmett**  
New York, New York  
Chairman  
Burns Fry and Timmins Inc.  
Chairman  
Nabisco Brands Ltd

**Gordon M. Farquharson, Q.C.**  
Toronto, Ontario  
Partner  
Lang Michener Lash Johnston  
Barristers & Solicitors

**R. Edward Glover**  
Toronto, Ontario  
President &  
Chief Operating Officer  
Nabisco Brands Ltd

**Jeannine Guillevin-Wood**  
St. Laurent, Quebec  
Chairman of the Board,  
President &  
Chief Executive Officer  
Guillevin International Inc.

**John Loudon**  
London, England  
Managing Director  
N.M. Rothschild & Sons Ltd.

**John R. MacDonald**  
Toronto, Ontario  
Vice Chairman &  
Chief Executive Officer  
Nabisco Brands Ltd

**H. John McDonald**  
Toronto, Ontario  
Chairman  
Black & McDonald Limited

**W. Earle McLaughlin**  
Montreal, Quebec  
Former Chairman of the Board  
Royal Bank of Canada

**C. Richard Sharpe**  
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Chairman &  
Chief Executive Officer  
Sears Canada Inc.

**Kenneth D. Taylor**  
New York, New York  
Senior Vice President,  
Government Affairs  
Nabisco Brands, Inc.

### Audit Committee

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*Chairman*  
**Gordon M. Farquharson, Q.C.**  
**Jeannine Guillevin-Wood**  
**H. John McDonald**  
**W. Earle McLaughlin**

### Compensation & Human Resources Committee

**C. Richard Sharpe**  
*Chairman*  
**H. John McDonald**  
**Jeannine Guillevin-Wood**  
**Kenneth D. Taylor**

### Executive Committee

**John R. MacDonald**  
*Chairman*  
**Martin F.C. Emmett**  
**R. Edward Glover**  
**H. John McDonald**  
**W. Earle McLaughlin**  
**C. Richard Sharpe**

### Officers

**Martin F. C. Emmett**  
Chairman of the Board

**John R. MacDonald**  
Vice Chairman &  
Chief Executive Officer

**R. Edward Glover**  
President &  
Chief Operating Officer

**John C. Doran**  
Senior Vice President,  
Finance

**Richard D. Innes**  
Senior Vice President, and  
President,  
Foods Division

**Edwin J. Korhonen**  
Senior Vice President, and  
President,  
Industrial Products Division

**Raymond J. Verdon**  
Senior Vice President, and  
President,  
Christie, Brown & Co.

**Bruce J. Wood**  
Senior Vice President, and  
President,  
Confectionery Division

**Ronald A. Adlam**  
Vice President, Planning

**Simon Gulden**  
Vice President,  
General Counsel & Secretary

**Brian C. Koenig**  
Vice President, Personnel

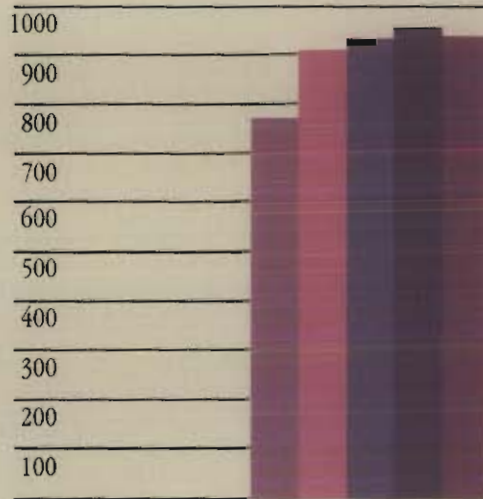
**M. Robert Langille**  
Vice President & Comptroller

**Emerson A. Mascoll**  
Vice President,  
Corporate Affairs

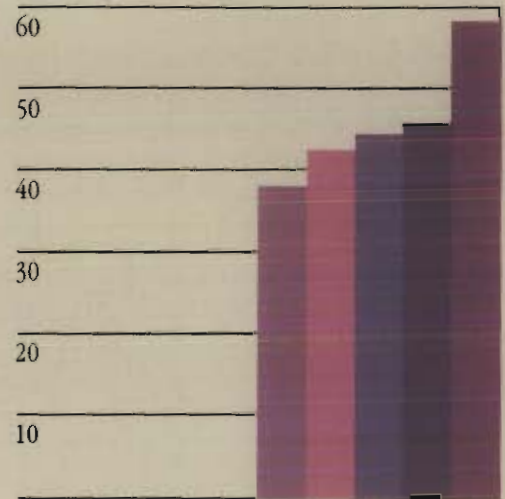
**Frederick C. Z. Silk**  
Vice President & Treasurer

|    |  |
|----|--|
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| 32 | Consolidated Balance Sheet                                 |
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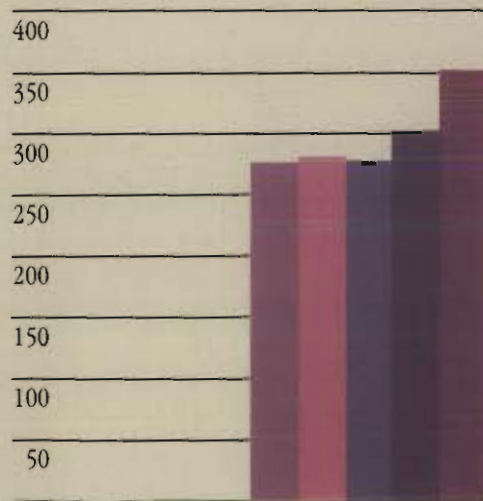
## 5 Year Financial Review



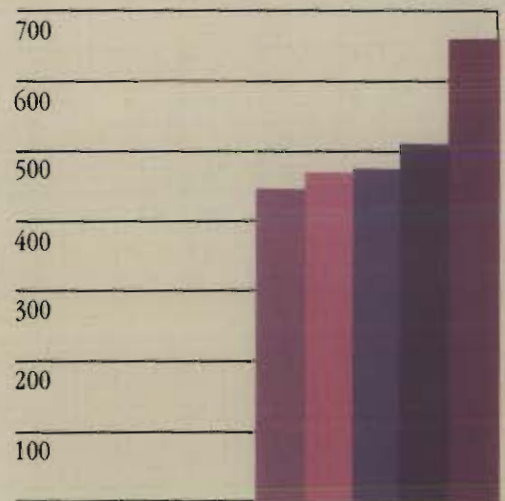
**NET SALES**  
(millions of dollars)



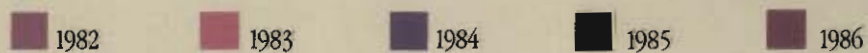
**NET INCOME**  
(millions of dollars)



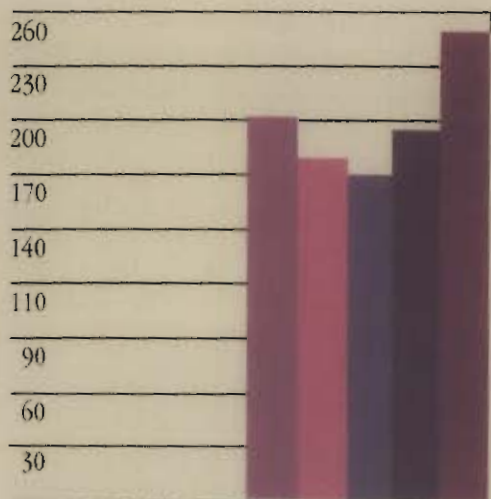
**SHAREHOLDERS' EQUITY**  
(millions of dollars)



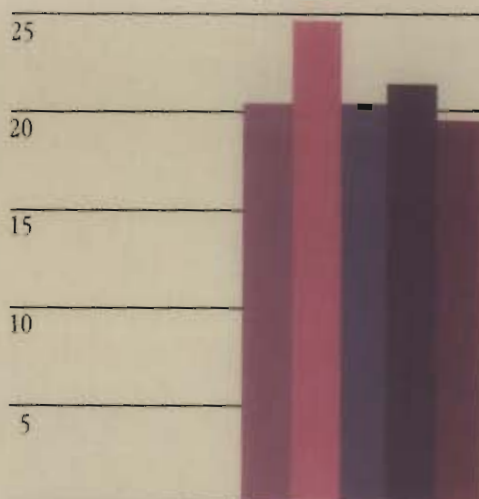
**TOTAL ASSETS**  
(millions of dollars)



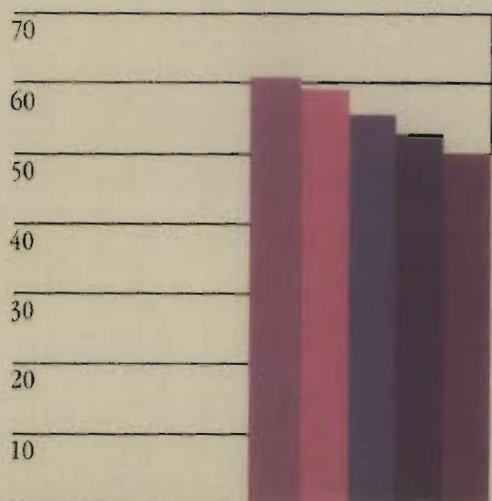




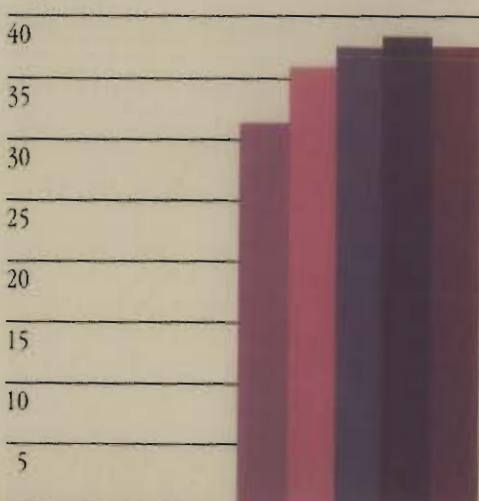
**WORKING CAPITAL**  
(millions of dollars)



**CAPITAL INVESTMENT**  
(millions of dollars)



**TOTAL DEBT.**  
(millions of dollars)



**PER CAPITA SALES**  
(dollars)

# Consolidated Statement of Income and Retained Earnings

Nabisco Brands Ltd  
for the year ended  
December 31, 1986  
(in thousands of dollars  
except per share amounts)

|   | 1986      | 1985      |
|---|-----------|-----------|
| NET SALES   | \$941 655 | \$961 332 |
| Cost of products sold   | 695 190   | 702 234   |
| GROSS MARGIN  | 246 465   | 259 098   |
| Selling, administrative and other expenses,<br>including interest on long-term debt of \$5,855 in<br>1986 and \$6,035 in 1985 | 186 690   | 178 823   |
| INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS   | 59 775    | 80 275    |
| Provision for taxes on income (Note 11)   | 27 300    | 33 810    |
| INCOME BEFORE EXTRAORDINARY ITEMS   | 32 475    | 46 465    |
| Extraordinary items (Note 9)  | 26 035    | (880)     |
| NET INCOME  | 58 510    | 45 585    |
| RETAINED EARNINGS, beginning of year  | 301 215   | 271 630   |
|   | 359 725   | 317 215   |
| Dividends declared  | 16 000    | 16 000    |
| RETAINED EARNINGS, end of year  | \$343 725 | \$301 215 |
| Earnings per share:   |           |           |
| Income before extraordinary items   | \$ 1.62   | \$ 2.32   |
| Net Income  | \$ 2.93   | \$ 2.28   |

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Nabisco Brands Ltd as at December 31, 1986 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the preceding year were examined by other chartered accountants.

January 19, 1987

*Thorne Ernst & Whinney*

# Consolidated Statement of Changes in Financial Position

Nabisco Brands Ltd  
for the year ended  
December 31, 1986  
(in thousands of dollars)

|   | 1986       | 1985       |
|---|------------|------------|
| OPERATING ACTIVITIES                          |            |            |
| Income before extraordinary items             | \$ 32 475  | \$ 46 465  |
| Depreciation and amortization                 | 16 458     | 15 033     |
| Deferred income taxes                         | 4 109      | (765)      |
| Change in working capital                     | (16 896)   | 5 005      |
| Net funds from operating activities           | 36 146     | 65 738     |
| FINANCING ACTIVITIES                          |            |            |
| Debt repayment                                | (3 495)    | (3 470)    |
| Inter-company notes payable (Note 2)          | 129 669    | —          |
| Inter-company notes receivable (Note 9)       | (11 045)   | —          |
| Net funds from financing activities           | 115 129    | (3 470)    |
| INVESTMENT ACTIVITIES                         |            |            |
| Fixed assets                                  |            |            |
| Additions                                     | (19 548)   | (21 894)   |
| Proceeds from disposals                       | 514        | 4 911      |
|   | (19 034)   | (16 983)   |
| Acquisition (Note 2)                          | (130 479)  | (2 863)    |
| Net funds used for investment activities      | (149 513)  | (19 846)   |
| DIVESTITURES AND PLANT CLOSURES (Notes 9, 12) | 132 860    | —          |
| DIVIDENDS PAID                                | (16 000)   | (16 000)   |
| NET GENERATION OF FUNDS                       | 118 622    | 26 422     |
| FUNDS (cash and short-term investments)       |            |            |
| - beginning of year                           | 52 381     | 25 959     |
| - end of year                                 | \$171 003  | \$ 52 381  |
| CHANGES IN WORKING CAPITAL                    |            |            |
| Accounts receivable                           | \$ 10 977  | \$ (7 265) |
| Inventories and prepaid expenses              | 6 562      | 6 701      |
| Accounts payable and accrued expenses         | (22 808)   | (140)      |
| Due from/to parent and affiliates             | (4 740)    | (4 248)    |
| Income and other taxes recoverable            | (6 887)    | 9 957      |
| (Increase) Decrease for the year              | \$(16 896) | \$ 5 005   |

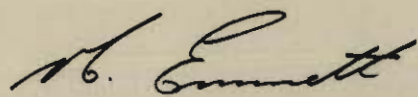


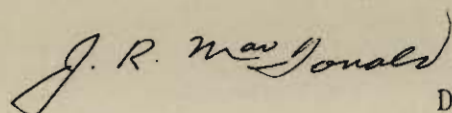
# Consolidated Balance Sheet

Nabisco Brands Ltd  
December 31, 1986  
(in thousands of dollars)

| ASSETS                                     | 1986                      | 1985                      |
|--|---------------------------|---------------------------|
| CURRENT ASSETS:                            |                           |                           |
| Cash and short-term investments            | \$171 003                 | \$ 52 381                 |
| Accounts receivable                        | 80 723                    | 89 423                    |
| Income taxes recoverable                   | 9 603                     | —                         |
| Due from parent                            | —                         | 3 024                     |
| Inventories (Note 3)                       | 188 426                   | 162 137                   |
| Prepaid expenses and other assets          | 10 717                    | 9 304                     |
| Assets held for sale (Note 12)             | 1 475                     | —                         |
| Total current assets                       | <u>461 947</u>            | <u>316 269</u>            |
| <br>FIXED ASSETS (Note 4)                  | <br>151 146               | <br>157 701               |
| <br><br><br>GOODWILL AND OTHER INTANGIBLES | <br><br><br><u>45 709</u> | <br><br><br><u>39 320</u> |
|  | <u><u>\$658 802</u></u>   | <u><u>\$513 290</u></u>   |

Approved on behalf of the Board:

 Director

 Director

| LIABILITIES                                   | 1986             | 1985             |
|---|------------------|------------------|
| CURRENT LIABILITIES:                          |                  |                  |
| Accounts payable and accrued expenses         | \$126 207        | \$106 773        |
| Due to parent and affiliates                  | 77 690           | —                |
| Income taxes payable                          | —                | 1 845            |
| Other taxes payable                           | 3 566            | 5 744            |
| Dividends payable                             | 4 000            | 4 000            |
| Current maturities of long-term debt (Note 5) | 3 173            | 3 494            |
| Total current liabilities                     | <u>214 636</u>   | <u>121 856</u>   |
| DUE TO PARENT AND AFFILIATES (Note 2)         | 14 149           | —                |
| LONG-TERM LIABILITIES (Note 5)                | 45 246           | 49 128           |
| DEFERRED INCOME TAXES                         | 34 635           | 34 680           |
| SHAREHOLDERS' EQUITY:                         |                  |                  |
| Capital stock (Note 6)                        | 6 411            | 6 411            |
| Retained earnings                             | <u>343 725</u>   | <u>301 215</u>   |
|   | <u>350 136</u>   | <u>307 626</u>   |
|   | <u>\$658 802</u> | <u>\$513 290</u> |

# Notes to Consolidated Financial Statements

Nabisco Brands Ltd  
for the year ended  
December 31, 1986

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) The consolidated financial statements include the accounts of the Company and all subsidiary companies and are prepared in accordance with generally accepted accounting principles as formalized by the recommendations of the Canadian Institute of Chartered Accountants.
- b) Short-term investments are carried at cost which approximates market value.
- c) Finished goods inventories and work in process are valued at the lower of cost and net realizable value. Raw materials and packaging supplies are valued at the lower of cost and replacement cost. Cost is determined principally on an average or first-in, first-out basis.
- d) Property, plant and equipment are recorded at cost. Assets under capital leases are recorded at the present value of future minimum rental payments. For financial reporting purposes, depreciation and amortization expense is provided on a straight-line basis using estimated useful lives of ten to sixty years for buildings and two to forty years for machinery and equipment.
- e) Goodwill acquired after September, 1970 is being amortized over periods not to exceed forty years. Goodwill acquired prior to October, 1970 of \$10,375,272 is not being amortized. Other intangibles, principally trade marks, are amortized over forty years.

## 2. ACQUISITIONS

On November 28, 1986 the Company acquired certain net operating assets and trade marks of Canadian Cannery Limited, a subsidiary of RJR Nabisco, Inc., the Company's ultimate parent. The acquisition has been accounted for using the purchase method. Details of the transaction are as follows:

|   | (in thousands<br>of dollars) |
|---|------------------------------|
| Net Assets Acquired at Assigned Values:   |                              |
| Working Capital   | \$ 75 894                    |
| Fixed Assets  | 30 102                       |
| Goodwill  | 24 483                       |
|   | <u>\$130 479</u>             |
| Consideration Given:  |                              |
| Cash, including expenses relating to the acquisition  | \$ 810                       |
| Royalties payable through 1992 in respect of trade marks<br>acquired, discounted to present value at 10 % | 10 000                       |
| Notes Payable, due February 26, 1987 and bearing interest<br>at 8.25 %                                    | 113 069                      |
| Note Payable, due in ten annual installments starting<br>November 28, 1987 and bearing interest at 10.5 % | 6 600                        |
|   | <u>\$130 479</u>             |



On August 2, 1985, the Company acquired certain assets and the business of Anthos Coffee Company Limited for cash consideration of \$2,863,000, consisting of \$1,900,000 for goodwill and \$963,000 for other assets.

|  |                           |                  |
|--|---------------------------|------------------|
| 3. INVENTORIES   | (in thousands of dollars) |                  |
|  | 1986                      | 1985             |
| Finished goods   | \$121 823                 | \$ 67 063        |
| Work in process (principally maturing spirits in 1985)   | 3 789                     | 36 963           |
| Raw materials and packaging supplies   | 62 814                    | 58 111           |
|  | <u>\$188 426</u>          | <u>\$162 137</u> |
| 4. FIXED ASSETS  | (in thousands of dollars) |                  |
|  | 1986                      | 1985             |
| Land   | \$ 4 196                  | \$ 4 953         |
| Buildings  | 53 050                    | 76 928           |
| Machinery and equipment  | 188 620                   | 202 106          |
| Assets under capital leases  | 5 521                     | 5 705            |
|  | <u>251 387</u>            | <u>289 692</u>   |
| Less — Accumulated depreciation  | 100 241                   | 131 991          |
|  | <u>\$151 146</u>          | <u>\$157 701</u> |
| 5. LONG-TERM LIABILITIES   | (in thousands of dollars) |                  |
|  | 1986                      | 1985             |
| 14% Sinking fund debentures due March 15, 2000,<br>guaranteed by Nabisco Brands, Inc. with sinking fund<br>payments of \$1,725,000 annually      | \$ 24 825                 | \$ 26 550        |
| 9.75% Sinking fund debentures due December 15, 1997,<br>guaranteed by Nabisco Brands, Inc. with sinking fund<br>payments of \$1,000,000 annually | 19 000                    | 20 000           |
| 7.5% Secured debentures  | —                         | 285              |
| Other, including mortgages on certain properties carrying<br>interest rates ranging from 7% - 11 ¾ %   | 1 375                     | 2 207            |
| Capital lease obligations  | 3 219                     | 3 580            |
|  | <u>48 419</u>             | <u>52 622</u>    |
| Less — current maturities  | 3 173                     | 3 494            |
|  | <u>\$ 45 246</u>          | <u>\$ 49 128</u> |

## Notes to Consolidated Financial Statements

Future minimum lease payments under capital leases are as follows:

|                       | (in thousands<br>of dollars) |
|-----------------------|------------------------------|
| 1987                  | \$ 609                       |
| 1988                  | 609                          |
| 1989                  | 592                          |
| 1990                  | 500                          |
| 1991                  | 500                          |
| 1992 - 1995           | <u>1 793</u>                 |
|                       | 4 603                        |
| Less interest @ 9.8 % | <u>1 384</u>                 |
|                       | <u>\$ 3 219</u>              |

|   | (in thousands of dollars) |                 |
|---|---------------------------|-----------------|
| 6. CAPITAL STOCK  | <u>1986</u>               | <u>1985</u>     |
| a) Class A Special shares without nominal or par value.   |                           |                 |
| Authorized — unlimited number of voting Class A shares,<br>convertible to common on a share for share basis; but<br>otherwise participating equally with the common shares; |                           |                 |
| Issued and fully paid 4,000,000 shares  | \$ 10                     | \$ 10           |
| b) Common shares without nominal or par value.  |                           |                 |
| Authorized — unlimited number of voting shares;   |                           |                 |
| Issued and fully paid 16,000,000 shares   | <u>6 401</u>              | <u>6 401</u>    |
|   | <u>\$ 6 411</u>           | <u>\$ 6 411</u> |

### 7. TRANSACTIONS WITH RELATED PARTIES

Transactions with the parent and affiliated companies are summarized below:

|                                   | (in thousands of dollars) |             |
|-----------------------------------|---------------------------|-------------|
|                                   | <u>1986</u>               | <u>1985</u> |
| Sales                             | \$ 22 110                 | \$ 12 660   |
| Purchases                         | 3 242                     | 6 169       |
| Management and other charges, net | 3 653                     | 824         |
| Royalties paid                    | 3 162                     | 3 018       |

---

## PENSION PLANS

The Company and its subsidiaries contribute to several pension plans covering substantially all eligible employees. The plans are, for the most part, contributory, defined benefit plans. The total pension expense in 1986 was \$7,135,000 (\$6,898,000 in 1985), which included amortization of unfunded actuarial liabilities which are being funded and expensed for the most part over periods of 15 years or less.

The actuarial present value of accumulated plan benefits as of December 31, 1985, the date of the most recent valuation, and net assets available for benefits are summarized below.

(in thousands of dollars)

|   | 1985             |
|---|------------------|
| Actuarial present value of accumulated plan benefits: |                  |
| Vested  | \$ 93 071        |
| Non Vested  | 8 624            |
| Total   | <u>\$101 695</u> |
| Net assets available for benefits (Market Value)      | <u>\$154 671</u> |

The apparent surplus above is required to meet the Company's funding policy with respect to its pension plans which recognizes future benefit increases expected to result from future increases in members' salaries; whereas the actuarial present value of accumulated plan benefits shown above represents the pension benefits earned by employees as of December 31, 1985 based on eligible service to date and current salaries. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5%.

## EXTRAORDINARY ITEMS

On July 2, 1986 the Company sold fixed assets, inventories and trade marks of the Canadian Yeast operations of the Fleischmann Division for net cash proceeds of \$39,000,000. The gain on the sale amounted to \$23,213,000.

On December 31, 1986 the Company sold its investment in a wholly-owned subsidiary, McGuinness Distillers Limited, to Heublein Inc. a subsidiary of RJR Nabisco, Inc. for cash proceeds of \$65,000,000. The gain on the sale amounted to \$17,997,000.

On November 24, 1986 the Company sold the trade marks of The Herwin Company, a wholly-owned subsidiary located in the U.S., to an affiliate, Nabisco, Inc., for \$11,045,000 by way of a promissory note due November 15, 1987 and bearing interest at 6.16%. The gain on the sale amounted to \$10,210,000.

As a result of the acquisition of Nabisco Brands, Inc., the parent company, by RJR Nabisco, Inc. (formerly R.J. Reynolds Industries, Inc.), the Company has embarked on a major program to restructure its core businesses. The restructuring has involved divestiture of certain of its non-



## Notes to Consolidated Financial Statements

core businesses, re-alignment of its operating divisions including the integration of its two biscuit companies into one biscuit division and integration of the Del Monte, Aylmer and Foods Division into one Grocery Division. As part of these activities, a major study has been implemented to eliminate redundant overhead expenses. The provision for costs to perform the study and implement the overhead reduction programs is \$15,156,000.

During the year the Company made the decision to shut down marginal manufacturing facilities of the Foods, Confectionery and Wines & Spirits Divisions. Provision for one-time plant closure costs relating to asset write downs, severance and relocation expenses is \$10,429,000.

With respect to the items above, the Company has provided for income taxes recoverable of \$10,565,000 with respect to the provision for costs and income taxes payable of \$10,365,000 with respect to the gains on the sales.

The world-wide key employee performance share plan of Nabisco Brands, Inc., the parent company, provided long-term incentive awards to senior executives based on market performance of Nabisco Brands, Inc. shares. As provided in the Merger Agreement dated June 1, 1985, between RJR Nabisco, Inc. and Nabisco Brands, Inc. the plan was concluded and provision was made for early distribution, on a prorated basis to the end of 1985, of the incentive award for the three uncompleted performance periods. In 1985 the Company expensed \$880,000, net of income taxes of \$920,000, related to the early distribution.

### 10. OPERATING LEASE COMMITMENTS

| The future minimum lease payments are as follows: | (in thousands<br>of dollars) |
|---|------------------------------|
| 1987  | \$ 4 144                     |
| 1988  | 3 838                        |
| 1989  | 3 624                        |
| 1990  | 3 717                        |
| 1991  | 3 739                        |
| 1992 and thereafter                               | 12 099                       |
|   | <u>\$31 161</u>              |

### 11. INCOME TAXES

A reconciliation of the statutory income tax rate to the Company's effective income tax rate is as follows:

|  | 1986           | 1985           |
|--|----------------|----------------|
| Statutory rate in Canada (federal and provincial)            | 51.34 %        | 49.36 %        |
| Reduction applicable to manufacturing and processing profits | (5.33)         | (4.18)         |
| Reduction resulting from inventory allowance                 | (.47)          | (2.73)         |
| Other, net   | .13            | (0.33)         |
|  | <u>45.67 %</u> | <u>42.12 %</u> |

## 12. SUBSEQUENT EVENTS

Subsequent to the year-end the Company completed the sale of certain assets and trade marks of the Canadian Pet Foods operations of the Foods Division for cash of \$54,815,000. The transaction which is subject to adjustments, will result in an approximate gain of \$21,600,000, net of income taxes of \$9,850,000.

On November 26, 1986 the Company and Nabisco Brands, Inc., signed an agreement with Alpo Petfoods, Inc. for the sale of the business of The Hervin Company. The agreement included the trade marks which were previously sold to Nabisco, Inc. for \$11,045,000 (see note 9) and trade receivables and inventories for approximately \$4,900,000. Completion of the transaction requires the approval of the U.S. Federal Trade Commission. The Company does not anticipate any loss on the sale of the trade receivables and inventory or on the disposition of fixed assets which were not included in the sale.

The net assets of the Canadian Pet Foods operations and The Hervin Company held for sale are separately disclosed in the balance sheet at December 31, 1986 and consist of the following:

|                                     | (in thousands<br>of dollars) |
|-------------------------------------|------------------------------|
| Working Capital                     | \$ 12 788                    |
| Fixed Assets                        | 11 913                       |
| Goodwill & Trade marks              | 6 774                        |
|                                     | <u>\$ 31 475</u>             |
| Cash deposit received               | 30 000                       |
| Assets held for sale net of deposit | <u>\$ 1 475</u>              |

## 13. BUSINESS SEGMENTS

The Company is engaged in two main lines of business; Consumer Products and Food Ingredients Products. Consumer Products includes packaged foods, confectionery products, pet foods and wines and spirits products which are manufactured and/or sold for the most part under advertised brand names through grocery stores, supermarkets, confectionery stores and Provincial Liquor Board outlets. Food Ingredients Products includes mainly coffee and oil-based products sold to hotels and restaurants, and flour, yeast and other baking ingredients sold to bakeries. The following schedule presents information about the Company's business segments:



## Notes to Consolidated Financial Statements

|                                   | (in thousands of dollars) |                  |
|-----------------------------------|---------------------------|------------------|
|                                   | 1986                      | 1985             |
| Segment sales:                    |                           |                  |
| Consumer Products                 | \$761 953                 | \$801 506        |
| Food Ingredients Products         | 179 702                   | 159 826          |
|                                   | <u>\$941 655</u>          | <u>\$961 332</u> |
| Segment operating profit:         |                           |                  |
| Consumer Products                 | \$ 65 459                 | \$ 85 149        |
| Food Ingredients Products         | 13 005                    | 15 997           |
|                                   | <u>\$ 78 464</u>          | <u>\$101 146</u> |
| General corporate expense, net    | \$ 16 370                 | \$ 16 548        |
| Interest expense, net             | 2 319                     | 4 323            |
| Income taxes                      | 27 300                    | 33 810           |
|                                   | <u>\$ 45 989</u>          | <u>\$ 54 681</u> |
| Income before extraordinary items | \$ 32 475                 | \$ 46 465        |
| Extraordinary items               | 26 035                    | (880)            |
| Net Income                        | <u>\$ 58 510</u>          | <u>\$ 45 585</u> |
| Identifiable assets:              |                           |                  |
| Consumer Products                 | \$547 870                 | \$424 380        |
| Food Ingredients Products         | 110 932                   | 88 910           |
|                                   | <u>\$658 802</u>          | <u>\$513 290</u> |
| Capital expenditures:             |                           |                  |
| Consumer Products                 | \$ 13 243                 | \$ 16 990        |
| Food Ingredients Products         | 6 305                     | 4 904            |
| Depreciation and amortization:    |                           |                  |
| Consumer Products                 | 13 036                    | 12 218           |
| Food Ingredients Products         | 3 422                     | 2 815            |

### 14. RECLASSIFICATIONS

Certain of the prior year's accounts have been reclassified to conform with the presentation adopted in the current year.





# Products

## BISCUITS

Christie Cookies  
 Apple Newtons  
 Arrowroot  
 Barnum's Animal Crackers  
 Chewy Chips Aboy!  
 Chips Aboy!  
 Chococious  
 Coffee Breaks  
 Date Newtons  
 Favourites  
 Fig Newtons  
 Fudge-o  
 Familla  
 Midget Snaps  
 Miniatures  
 Montclair Chocolate Graham's  
 Mr. Christie's Crisp 'N Chewy  
 Neapolitan Wafers  
 Oreo  
 Oreo Double Stuf  
 Oreo Mint Creme  
 Pantry  
 Pirate  
 Raspberry Newtons  
 Social Tea  
 Sultana  
 Tea Treats  
 Vanilla Wafers

Christie Crackers  
 Bacon Dippers  
 Better Blue  
 Better Cheddars  
 Better Nacho  
 Better Swiss  
 Cheese Bits  
 Cheese & Green Onion  
 Cheese Nips  
 Cheese Ritz  
 Cheese Tid Bits  
 Escort  
 French Onion Thins  
 Ground Wheat Thins  
 Honey Maid Graham Wafers  
 Honey Maid Chocolate  
 Graham Crumbs  
 Honey Maid Graham Crumbs  
 Horis\*  
 Meal Mates  
 Milk Lunch  
 Old Fashioned  
 Old Fashioned Fibre  
 Pizza Thins  
 Premium Plus  
 Ritz  
 Sociables  
 Sour Cream & Chives  
 Swiss Cheese  
 Triscuit  
 Vegetable Thins  
 Wheatsworth  
 Wheat Thins

Christie Snacks & Cones  
 Bits & Bites  
 Cheddar Flings  
 Cheddars  
 Mini Chips  
 Mister Salty Pretzels  
 Cadet & Comet Cones

## Dad's Cookies

All Butter Shortbread  
 Apple 'N Oatmeal  
 Big Cookie  
 Geonios  
 Chips in Chocolate  
 Chocolate Chip  
 Chunky Chocolate Chip  
 Chunky Fudge  
 Coated Variety  
 Coconut  
 Cremes of Crop  
 Date 'N Oatmeal  
 Family Pack  
 Goodie Rings  
 Mallows  
 Oatmeal  
 Oatmeal Chocolate Chip  
 Original Oatmeal  
 Raspberry 'N Oatmeal  
 Variety Pack

David Cookies  
 Assorted Mallows  
 Assorted Wafers  
 Chunks O' Chocolate  
 Coco au Lait  
 Coco Sandwich  
 Fig Bars  
 Ginger Snaps  
 Jelly Mallows  
 Maple Leaf  
 Petit Beurre  
 Petit Graham  
 Princess  
 Rainbow  
 Social Tea  
 Strawberry Tart  
 Super Graham  
 Vanilla Wafers

## Harnois Products

Gâteaux Royal  
 Pupineau  
 Winsor  
 Peek Freans Biscuits  
 Arrowroot  
 Assorted Creme  
 Bourbon Creme  
 Celebration  
 Chocolate Chip  
 Dark Chocolate Digestive  
 Digestive  
 Family Assortment  
 Family Digestive  
 Fruit Creme  
 Fruit Shortcake  
 Ginger Crisp  
 Ginger Crunch  
 Home Assorted  
 Milk Chocolate Digestive  
 Nice  
 Orange Chocolate  
 P.F. Assorted  
 Shortcake

Crackers  
 Cream Crackers  
 Biscuits For Cheese  
 Water Crackers

## CONFECTIONERY

Lowney Candy Bars  
 Caravan  
 Cherry Blossom  
 Eat More  
 Glossette Peanuts  
 Glossette Raisins  
 Junior Mints  
 Nut Milk  
 Oh Henry!  
 Peanut Butter Cups

Hard Roll Candy  
 Beech Nut Cough Drops  
 Breath Savers  
 Life Savers  
 Life Savers Lollipops  
 Bubble Yum  
 Care Free

Chewy Candy  
 Bonkers!

Nuts  
 Beaver  
 Fine Tree  
 Planters  
 Planters Unsalted  
 Planters Honey Roast

Moirs Boxed Chocolates  
 All Nuts  
 Almond Bark/Chocolate Bark  
 Almondillos  
 Cherries  
 Chocolate Covered Hazelnuts/  
 Almonds  
 Half & Half  
 Moirs Collection  
 Ovation  
 Petit Petit  
 Pot of Gold  
 Selection  
 Valentine Hearts

Other Confectionery  
 Angelus Marshmallows\*  
 Bassett's Licorice\*  
 Bridge Mixture  
 Campfire Marshmallows\*  
 Chippopotilly Snacks  
 Easter Eggs  
 Tradition

## GROCERY

Baking Aids  
 Chipits Baking Chips  
 Chipits Baking Squares  
 Chipits Cocoa Powder  
 Gillett's Cream of Tartar  
 Magic Baking Powder

Desserts  
 Royal Instant Puddings  
 Royal No-Bake Pie Mixes

Margarines  
 Blue Bonnet  
 Fleischmann's

## Nabisco Cereals

Honey Bran Crunchies  
 Honey Bran Crunchies & Fruit  
 100% Bran  
 Cream of Wheat  
 Raisin Wheat  
 Rice Flakes  
 Shredded Wheat  
 Shreddies  
 Shreddies & Raisins  
 Spoon Size Shredded Wheat  
 Team

## Fruits & Beverages

Aylmer Canned Fruit  
 Aylmer Diet Deluxe Fruit  
 Aylmer Diet Deluxe Pudding Cups  
 Del Monte Canned Fruits  
 Del Monte Canned Pineapple  
 Del Monte Pudding Cups  
 Del Monte Fruit Cups  
 Coronation Cherries  
 Aylmer Canned Tomato Juice  
 Del Monte Tetra Pack 100% Juices  
 Del Monte Canned and Bottled Juices/  
 Nectars & Drinks  
 Hawaiian Punch Canned Drinks and Crystals

## Soups & Vegetables

Aylmer Soups  
 Aylmer Baked Beans  
 Aylmer Canned Vegetables  
 Aylmer Canned Tomatoes  
 Del Monte Canned Vegetables  
 Del Monte Canned Tomatoes  
 Lyn Valley Canned Vegetables

## Condiments

Aylmer Jams & Jellies  
 Aylmer Ketchup  
 Aylmer Pickles  
 Coronation Pickles, Condiments  
 Chun King Oriental Foods

## Other

Egg Beaters Egg Substitute  
 Planters Peanut Oil

## Pet Snacks

Butcher Bones  
 Flavor Snacks  
 Milk-Bone

## INDUSTRIAL PRODUCTS

Reid Flour

## Food Service Coffees

Anthos  
 Becharas  
 Chase & Sanborn\*  
 Club  
 Dickson's  
 Eze Brew  
 Imperial Choice  
 Mellocup  
 Melrose  
 Mojabo

\* Manufactured under licence





